PepsiCo, Inc. Annual Report 1968

Building PepsiCo

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On the Cover: Today, PepsiCo, Inc. is constructing more than 30 new facilities around the world... new bottling plants, new production lines, new storage facilities, and most symbolic of all, its new world headquarters, in Harrison, N. Y. pictured on the cover.

Net Sales in 1968 were $848,265,000, an increase of 12 percent over $758,337,000 in 1967.

Net Income for 1968 was $46,454,000 compared with $42,531,000 for 1967.

Earnings Per Share were $2.10 rising 9 percent from $1.93 for 1967.

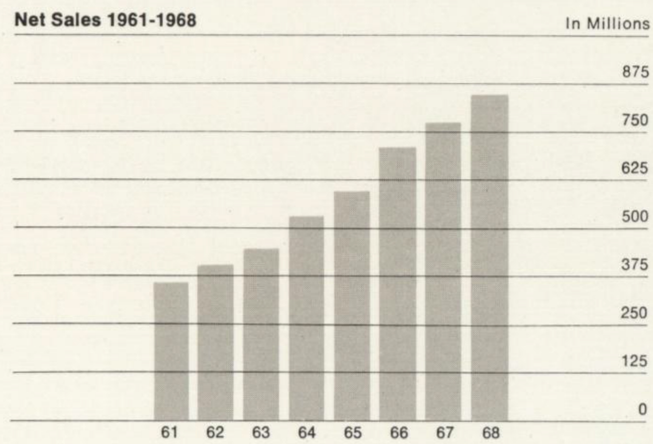
Average Shares Outstanding were 22,144,232 for 1968 and 22,020,700 for 1967.

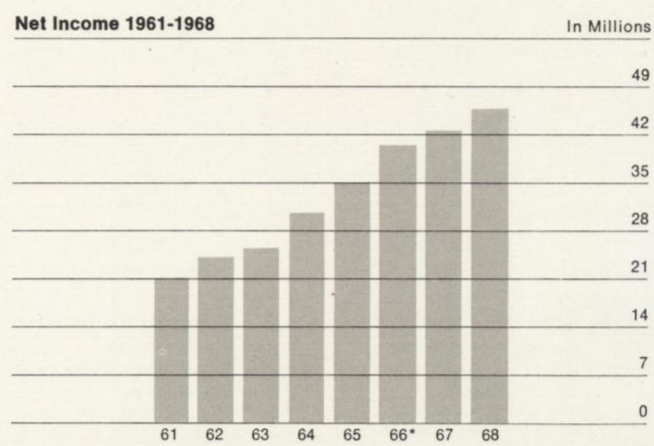
Dividends paid were $19,436,000 for 1968 and $18,321,000 for 1967. On an annual basis the current rate is $.90 per share.

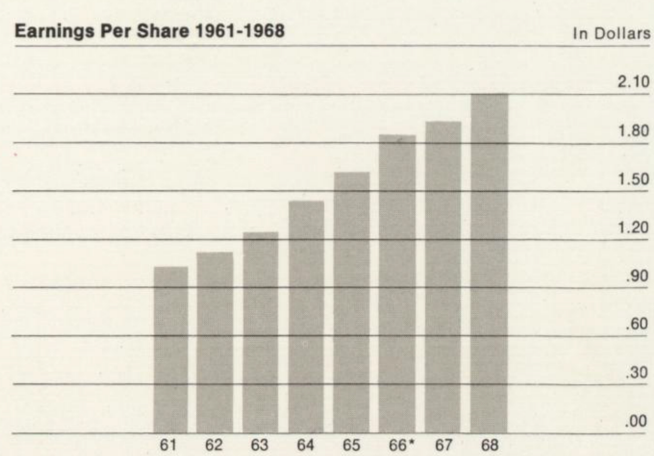
Plant and Equipment Expenditures were $40,414,000 in 1968 compared with $38,621,000 in 1967.

Depreciation and Amortization was $22,631,000 and $21,501,000 for 1968 and 1967, respectively.

Shareholders' Equity increased to $264,164,000 at the end of 1968, compared to $235,510,000 a year earlier.







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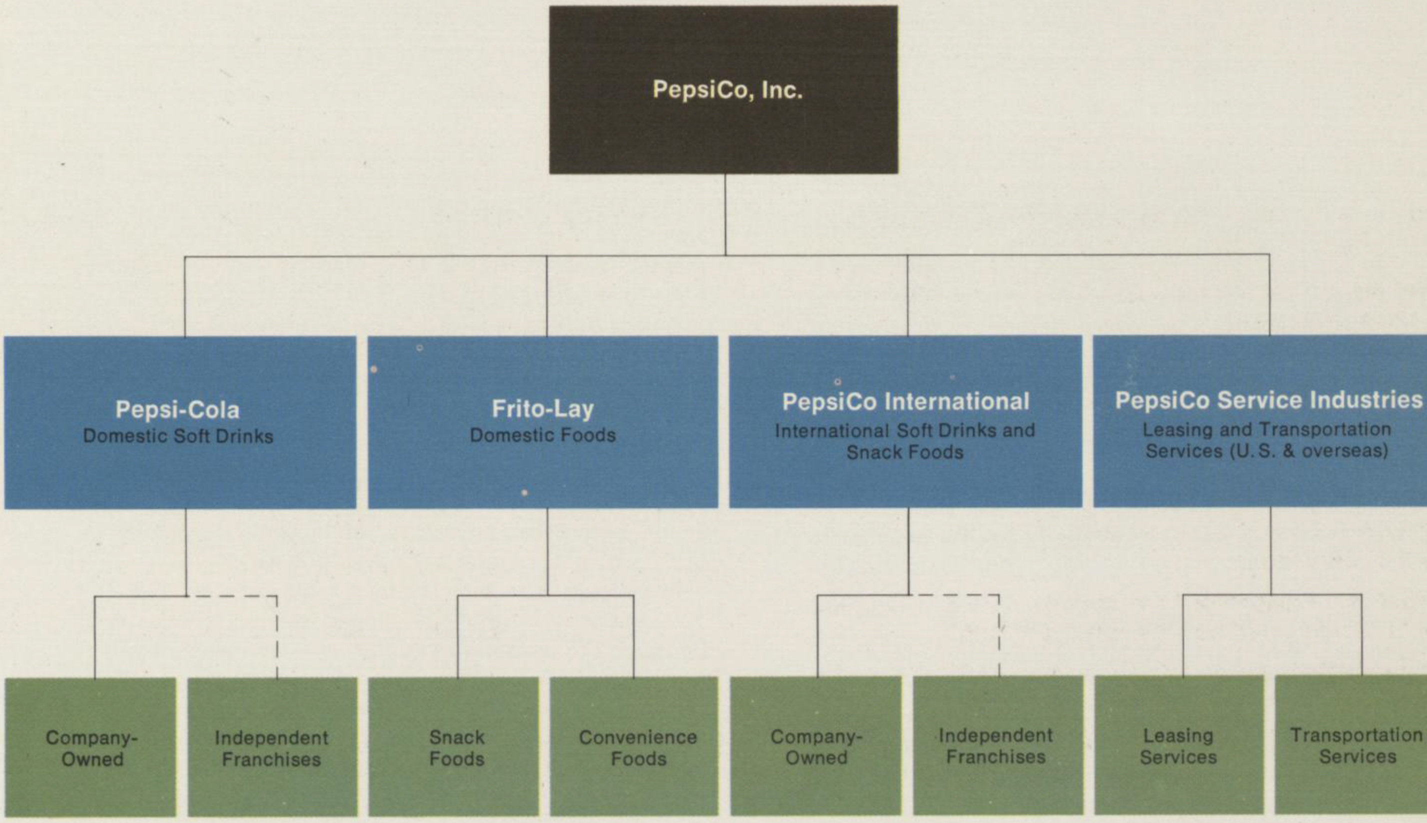


Pepsi-Cola Products

Soft Drinks
Pepsi-Cola
Diet Pepsi-Cola
Mountain Dew
Tropic Surf
Teem
Sugar Free Teem
Patio flavors
Mirinda Dry
Mirinda flavors
Glacier Club

Frito-Lay Products

Snack Foods
Fritos corn chips
Lay's potato chips
Ruffles potato chips
Doritos tortilla chips
Doritos taco flavored tortilla chips
Baken-ets fried pork rinds
Chee•tos cheese flavored puffs—baked or fried
Rold Gold pretzels
Fandangos corn snacks
Lay's dry roasted peanuts
Fritos brand dip mixes
Fritos brand jalapeño bean dip

Convenience Foods
Towie and Sevilla Bottled Olives, Cherries, Peppers, Cocktail Onions
Nu-Way Condiments
Mrs. Cubbison's dressings

PepsiCo International Products

Soft Drinks
Pepsi-Cola
Evervess
Diet Pepsi-Cola
Mirinda flavors
Patio flavors
Glacier Club
Paso de Los Toros tonic water
Teem
Tim
Mountain Dew
Rodeo

Snack Foods
Sabritas brand potato chips, corn chips and other snacks (Mexico)
Crimpy potato chips (United Kingdom)
Pricks biscuits and cakes (Sweden)
Coralli confectioneries (Sweden)
General Nordic snacks (Sweden)
Vienesa pastries, breads and preserves (Venezuela)
Ronco pastas (Venezuela)
Mike's popcorn (Japan)

PSI Services

Leasing
Automobiles
Truck maintenance
Aircraft
Office systems
Machine tools
Electronics
Laboratory equipment
Relocatable structures

Transportation
Household goods
New products
Building components
Mobile homes
Computers
Vacation trailers

To the Shareholders:

PepsiCo, Inc. earnings and sales again reached new records during 1968.

—Net earnings climbed to $46,453,578, as compared with $42,530,839 in 1967.

—Net earnings per share were up to $2.10, a 9 percent increase over the $1.93 in 1967.

—Net sales grew to $848,265,196, a 12 percent increase over the 1967 total of $758,337,191.

Both years include North American Van Lines, Inc. and Chandler Leasing Corporation, acquired by PepsiCo during the year, on a poolings of interests basis.

To properly evaluate the earnings rise, it is important to weigh the impact of the 10 percent federal income tax surcharge. Before allowing for this charge, 1968 earnings per share increased by 17 percent.

While sales of major products continued to climb in 1968, this in no way indicated a slacking of competition by other companies. Instead, PepsiCo products grew stronger in the face of some of the most rigorous competition in the world's market places.

Soft drink sales by Pepsi-Cola and PepsiCo International divisions continued to build soundly. Company-owned operations improved in efficiency and profitability. Franchise bottlers and Company management continued to work closely and effectively.

A number of new bottler-owned canning cooperatives were built, and a major strike by manufacturers of glass bottles was weathered without serious effect.

Two significant developments occurred during the year in the Frito-Lay division.

First, Frito-Lay had developed to a point where more than 80 percent of its sales were in nationally advertised and distributed brands. In recognition of this, the field force was reorganized along national rather than regional lines, so marketing and manufacturing efforts could be more effectively planned and executed.

Second, a settlement was reached with the Federal Trade Commission relating to a 1963 complaint brought by the Commission alleging violation of Section 7 of the Clayton Act. As previously reported, PepsiCo management is convinced the settlement is in the best interests of shareholders and the task of complying with it is underway.

In recognition of its growing diversity, the services division was formally renamed PepsiCo Service Industries during 1968. The acquisition of two new companies in the service industries area is covered in detail in the text of this report.

As this report went to press, negotiations related to the merger of Hardee's Food Systems, Inc. into PepsiCo were still in progress.

The board of directors of PepsiCo was saddened in October by the death of George C. Textor, chairman of the Marine Midland Grace Trust Company of New York, who had been a director since 1957. His counsel and devotion to the Company's interests have been missed.

Angus S. Alston, executive vice president of the American Telephone and Telegraph Company, was elected a director in November. Mr. Alston's background and experience, gained in his rise through the ranks to the top level of AT&T management, will be of great value.

The continued growth and expansion of PepsiCo has created many new career opportunities. More than 28,000 employees are today helping build PepsiCo; the Company is grateful for their efforts.

In the past year, the number of shareholders has grown to more than 51,000. Management continues to be dedicated to operating PepsiCo in a manner that will constantly increase the value of the shareholders' investment.

In 1969, PepsiCo management confidently expects further gains in sales and earnings.

Very truly yours,

Donald M. Kendall — Herman W. Lay

Donald M. Kendall
President

Herman W. Lay
Chairman of the Board

March 14, 1969

President Donald M. Kendall

Chairman Herman W. Lay

Building PepsiCo

Nearly 28,000 people are helping to build PepsiCo. Like Bill Anderson of Little Rock, Ark., shown here preparing for his daily rounds as a Frito-Lay route salesman. Anderson is one of some 3,600 Frito-Lay salesmen coast-to-coast who visit a wide variety of outlets on their routes several times each week, delivering fresh Lay's potato chips, Fritos corn chips and other Frito-Lay snacks, straightening displays, stopping to chat with store managers about additional or different display space. Bill, 33, joined Frito-Lay four years ago. Since then, in competition with 500 other salesmen in the Southwestern zone, he has been named "Salesman of the Year" twice.

PepsiCo is building. A canning line in Texas. A soft drink concentrate plant in Manila. Two tortilla chip lines in Southern California.

But PepsiCo is building more than structures of glass, mortar and steel. It is building its future, on a sound foundation for continued growth in sales and profits.

PepsiCo today is a worldwide marketer of soft drinks, snack foods and leasing and transportation services, available to a billion people around the world.

This report tells how PepsiCo is building. It tells of the more than 28,000 employees, some of them pictured here, who are working toward its goals. In the performance of his work, be it delivering Pepsi-Cola in Chicago or leasing a new car in Los Angeles, each is helping to build.

The products and services offered by PepsiCo's four major divisions are indicated on the chart on Page 3. Pepsi-Cola markets soft drinks in the United States. Frito-Lay makes and sells snack and convenience foods domestically. PepsiCo International manufactures and markets soft drinks and snack foods in overseas markets. PepsiCo Service Industries is in the transportation and leasing service fields, mostly in the U.S. but with increasing activities abroad.

These divisions, although decentralized in their management, share much in common.

Above all, they all make and sell products or supply services in rapidly-growing segments of the world economy.

Building PepsiCo: The Growing Sales

Sales of PepsiCo's soft drinks, snack and convenience foods and services continued to move ahead in 1968, providing impetus for continued growth and expansion.

The major products—Pepsi-Cola, Diet Pepsi-Cola, Lay's potato chips and Fritos corn chips—all made healthy gains.

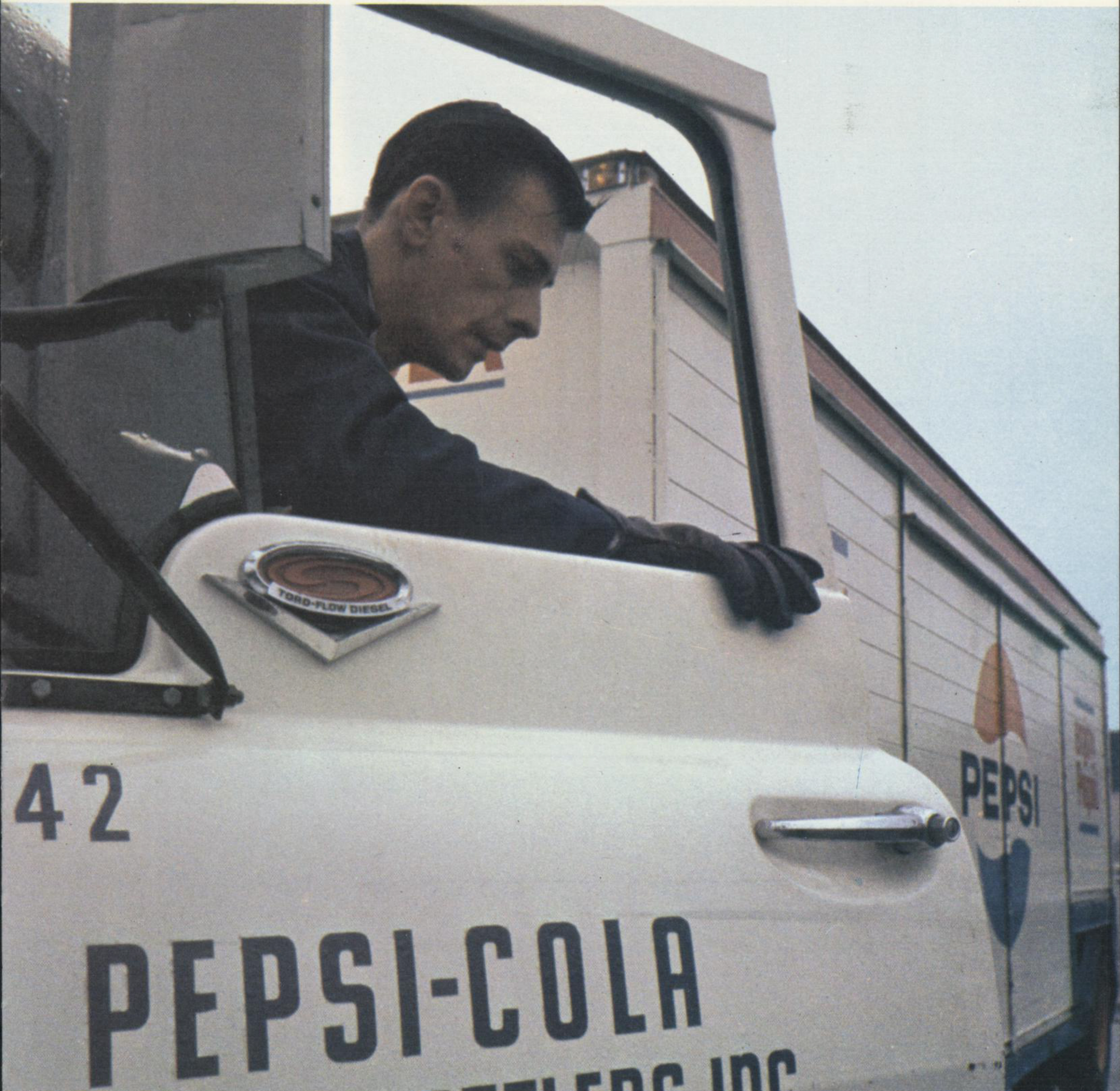
Pepsi-Cola sales, particularly those of fountain syrup, exceeded industry growth in a year when all soft drinks enjoyed good sales.

Diet Pepsi-Cola continued to be a star performer, and by year-end, had the largest case sales of all low calorie colas.

Teem, boosted by gains in fountain syrup demand, reversed an earlier trend and showed an increase in 1968. Mountain Dew had a small loss, but by the end of the year gave signs of resumed growth.

The opening of bottler-owned canning cooperatives in New York, Massachusetts, South Carolina and Ohio—serving 101 bottlers in all—contributed to the growth in sales of Pepsi-Cola soft drinks in convenience packages (non-returnable bottles and cans) which reached an all-time high in 1968. Other canning co-ops

Among those who help daily in building PepsiCo is Ronald Gleason. Before dawn, he starts his rounds of suburban Chicago, delivering Pepsi to supermarkets, grocery stores, service stations, schools, and an occasional firehouse. He is a route salesman for Pepsi-Cola General Bottlers of Chicago, largest of the more than 500 independent businesses around the United States franchised to bottle and sell Pepsi-Cola in their communities. "I'm the fellow the store managers and customers on my route see in the Pepsi truck and uniform," says Gleason. "So I suppose to them I, more than anyone else, represent Pepsi-Cola." Gleason joined Pepsi-Cola General Bottlers in 1956 and became a route salesman a year later.

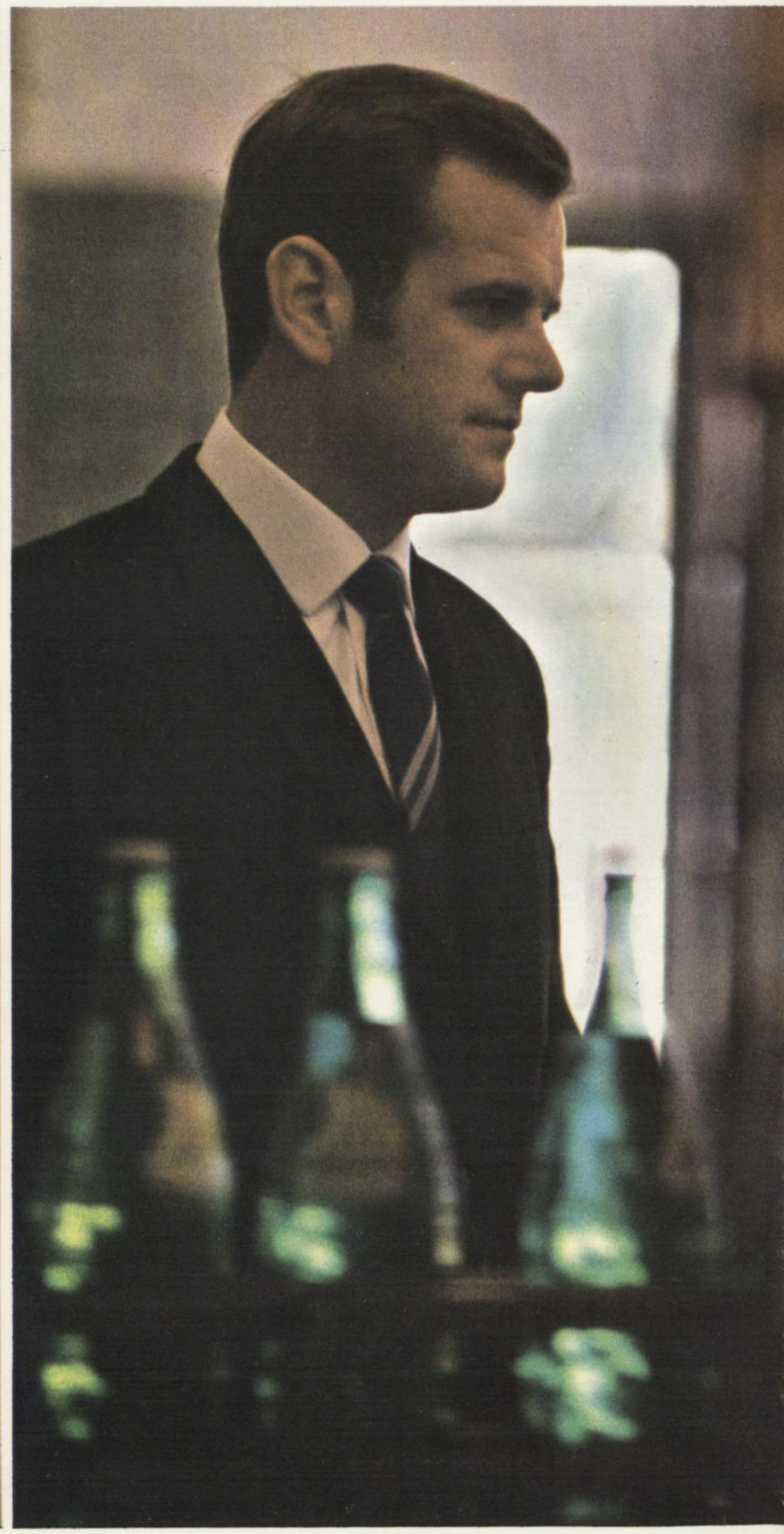


Laboratory technician Jean Nobbs works at PepsiCo International's United Kingdom concentrate manufacturing plant, located near London Airport. "This plant provides Pepsi-Cola concentrate to bottlers throughout the U.K.," Miss Nobbs explains. "Then, every month, we get back samples of the finished product bottled all over Europe. We check the samples carefully in the lab, to make sure they meet the quality standards set for Pepsi-Cola." Born in London, Miss Nobbs, 30, has been working for PepsiCo International for 10 years. Besides extensive training in England, she has also visited Pepsi-Cola facilities in the U.S. for further courses.

Frito-Lay's research laboratories in Irving, Texas, are second to none in the industry. Still, it's a long way from producing a new snack food under laboratory conditions to providing the same appetizing snack for mass consumption. Bridging that gap is Al Gericke's job. Al, shown here examining the extruded dough for an experimental snack, is a Group Leader—New Products Development. "What we do," he explains, "is take a product, like this one, that has been successful in the research kitchens, and produce it in quantity in a pilot plant, so we know we can be assured of the ability to provide consumers with a consistent, quality product in the market." Twenty-nine years old, Al joined Frito-Lay nearly four years ago, after studying food technology at the University of Florida.

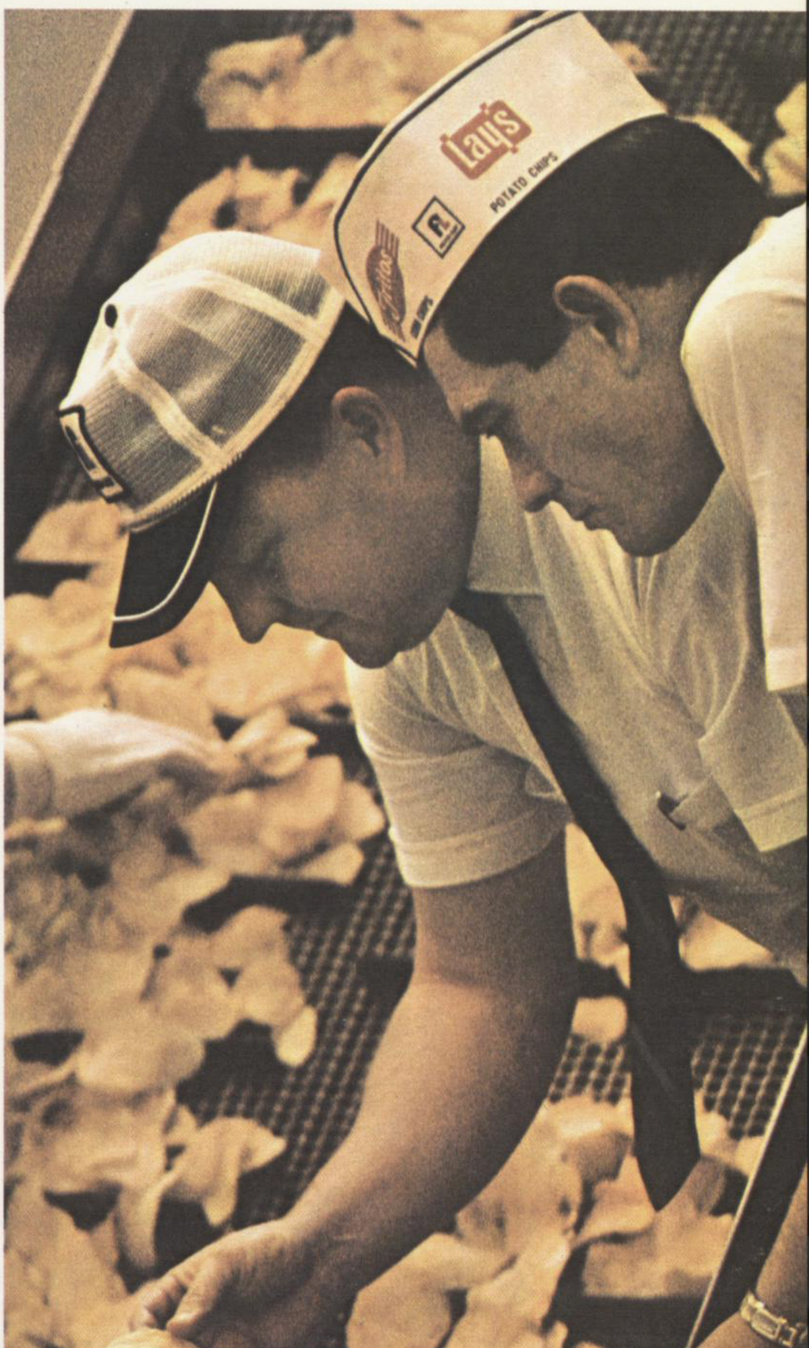
This 1969 Ford is about to join the 10,000-car fleet of Executive Car Leasing of Los Angeles, a PepsiCo Service Industries company. But first it gets a careful checkout by salesman Ron Brock. "We make sure the car has all the accessories the customer specified," says Ron, "and that everything works. Our business is built on convenience and service." Ron handles more than 600 of Executive Car's customers, some of them Hollywood stars. "I just delivered a new Rolls-Royce," he notes, "the most expensive car we've ever leased." Ron was a Los Angeles County deputy sheriff, after graduating from the University of Southern California, whose rounds each day took him past Executive Car Leasing. Ten years ago, at the age of 30, he joined Executive as a salesman.

At the age of 27, Peter Scriven is manager of one of the three PepsiCo International bottling plants in Buenos Aires, which turn out not only Pepsi-Cola but also Mirinda and Tim, the Argentine trademark for Teem. Scriven was born and educated in England, emigrated to South America, and went to work for PepsiCo International as a trainee in Montevideo, Uruguay, in 1965. In 1967, when the third Buenos Aires bottling plant was built, he was named plant manager. "This is one of the most booming economies in Latin America," he says of his adopted land. "My future is here." He is married to a native Argentine, and they have one child.



Before she joined Pepsi-Cola Company two years ago, 24-year-old Caryl Heller worked as a psychologist, helping high school dropouts. Today she works in Pepsi-Cola's marketing research department, using highly-sophisticated techniques to find and analyze consumer tastes and trends in soft drink consumption. "We try to find out not just what soft drinks a person might prefer," she explains, "but also the underlying psychological reasons for that preference." Caryl earned a psychology degree at Wagner College in New York in 1966, and is currently working on a graduate degree. She typifies the staff of 35 researchers currently engaged in all phases of market studies for Pepsi-Cola.

At the age of 26, Tim Dorough became Frito-Lay's youngest plant manager. Now, eight years later, he manages the potato and corn chip production at Irving, Texas, a 140,000-square-foot complex that is one of the most modern facilities in the snack food industry. Tim has worked for Frito-Lay for 16 years, starting as a shipping clerk in Dallas. The Irving plant, in addition to a full line of Lay's potato chips and Fritos corn chips, produces the newly-introduced taco flavored Doritos tortilla chips. "The demand for the taco flavored chips is just fantastic," Tim says. "We've been running 24 hours a day, and still can't catch up."



are under construction in Louisiana and Pennsylvania, tangible evidence of the solid cooperation among Pepsi-Cola franchise bottlers.

New products continue to be important to Pepsi-Cola division. With the growing popularity of one-way bottles and cans, new soft drinks can be launched without a heavy investment in returnable bottles. The ideal new soft drink is a proprietary product with a unique taste not identified with any fruit or flavor, and thus more difficult to imitate.

Tropic Surf is such a product, with its own unique citrus flavor. Successful in test market during 1968, it is currently being introduced around the country and is expected to be in wide distribution by the end of 1969.

Because of the changing makeup of the American population and its changing living habits, domestic soft drink sales are expected to continue to grow. In the years immediately ahead, Americans are expected to have more spending money and more leisure time in which to spend it; younger persons will represent an even larger percentage of the population. All these factors are expected to have a favorable effect on consumption of soft drinks.

All Frito-Lay nationally advertised and distributed products grew in 1968, but the brightest spot was Doritos tortilla chips. The regular Doritos tortilla chip, launched nationally only a year earlier, was acclaimed by a leading market research firm as "one of the most successful grocery products introduced in five years."

With this initial success, a new taco flavored Doritos tortilla chip was introduced in 1968, and was in full distribution by year end. Sales of both varieties are growing rapidly.

Doritos tortilla chips are corn-based with a distinct Mexican accent, reflecting growing interest by American consumers in more exotic tastes.

Another Frito-Lay snack, Chee•tos fried cheese puffs, was expanded into full national distribution during 1968. Although Chee•tos baked cheese puffs have been sold around the country for some time, the fried version was marketed only regionally. Market research showed a widening demand, however, and the fried cheese puffs were introduced into the remaining parts of the country in September.

Projections indicate that in the five year period from 1968 to 1973, the demand for all snack foods will continue to grow at a rate of more than 8 percent a year.

Overseas, the popularity of both soft drinks and foods marketed by PepsiCo International continues to rise. Soft drink sales were spurred in 1968 by the opening of 18 bottling plants in 13 countries.

Pepsi-Cola in larger, one-liter bottles, introduced during the year in overseas markets such as Argentina, Holland and Spain, was a quick success and use of this size package is being expanded.

At the other end of the scale, a smaller, four-ounce bottle of Paso de los Toros tonic water became popular in Spain as "Mini Tonica."

Mirinda Pomelo, a grapefruit flavor soft drink was successfully introduced in Argentina in 1968, and PepsiCo International plans to test market other new products in 1969.

The new snack food plant in Mexico City, manufacturing products under the Sabritas label—and one of the most modern snack food plants in all of Latin America—began showing results in 1968, as sales rose sharply.

Eleven Pepsi-Cola bottlers in Mexico have established separate routes and employed additional route salesmen to sell and deliver Sabritas snacks in their franchise areas, benefiting from existing experience and marketing knowhow.

PepsiCo International's snack food sales are now in nine markets, with the acquisition of Pasteleria Vienesa C.A. in Venezuela. Pasteleria Vienesa distributes a line of pasta, bakery products, preserves, fruit drinks and candy.

Building PepsiCo: The Service Industries

The growth and maturity of PepsiCo's varied service industry activities was recognized in 1968 when this division was formally renamed PepsiCo Service Industries (PSI).

Previously, the division had been known by the name of one of its major companies, Lease Plan International.

Along with the name change, the service industries division was reorganized along the line of its major activities: transportation services and leasing services. North American Van Lines, National Trailer Convoy and Whitehouse Trucking provide transportation services. Lease Plan International, Chandler Leasing, Executive Car Leasing, LPI Transportation and Mobilease provide leasing services.

North American Van Lines, headquartered at Fort Wayne, Indiana, became part of PepsiCo in 1968. A major mover of household goods and new products (such as computers and furniture), it operates through 1,200 agents coast to coast and 15 offices overseas. It moves more than 150,000 American families every year.

Because Americans are increasingly on the move, pulling up stakes to move from city to city following job opportunities with both industry and government, the movement of household goods is expected to continue to grow rapidly. Some 1.5 million American families will move in 1969, 15 percent more than in 1968.

Like North American Van Lines, National Trailer

LPI Transportation Corp., a PepsiCo Service Industries company, leases and provides full maintenance for this fleet of delivery trucks operated by the Schaefer Breweries of Brooklyn, N.Y. Mechanic Christopher Ryan is, as his name and brogue testify, a native of Ireland. He studied at technical schools in Cork and perfected his mechanic's trade in Ireland and England. Then in 1959, he came to America and went to work for LPI.

The man behind the Pepsi-Cola (Japan) Ltd. exhibit at Expo '70, Takeichi Hiraga, inspects a model of the planned exposition grounds in Osaka, where he was born 38 years ago. A graduate of Tokyo's Sophia University, Hiraga joined Pepsi-Cola (Japan) Ltd. in 1964. After training in the Philippines, he went to work in Japan as a field representative, and then this year was placed in charge of the exhibit, which will be jointly sponsored by Pepsi-Cola (Japan) Ltd. and the independent franchised bottlers in that country.

When Aero Commuter, a third-level air carrier serving Southern California, needed more office space—fast—it called Mobilease, a PepsiCo Service Industries company, for "instant space." Within 72 hours, Capt. Bill Hosmer of Aero Commuter, left, and Lige Thurman, Mobilease assistant sales manager, were able to inspect the completed installation. Mobilease had moved one of its relocatable structures to Long Beach Airport and put it in place, containing more than 25,000 square feet of office space, with heating and air conditioning, ready for desks. "Aero Commuter leases buildings from us here and at four other airports," Lige reported later. "Now they want a new air cargo terminal within the next three days." Lige, 27, joined Mobilease nearly two years ago.

Bill Joyner works with packaging manufacturers to insure that the production of cartons, bottles and cans adheres to rigid Pepsi-Cola Company design standards. He also, as shown here, consults with industrial designers on packaging for new Pepsi-Cola soft drink products. Joyner was born in New York City, studied at Niagara and St. John's Universities, and then moved with his wife to Adelaide, Australia, to "see what it was like down there." After three years in Australia, he returned to New York in 1967 and joined Pepsi-Cola Company, becoming Packaging Coordinator.

Convoy is a specialized common carrier operating under Interstate Commerce Commission rules; instead of furniture, it specializes in moving mobile homes.

Chandler Leasing, with headquarters in Waltham, Massachusetts, was also merged into PepsiCo in 1968. Chandler specializes in leasing new or used equipment to industrial firms.

With this capability added to its existing leasing services, PSI can now offer a corporation a "master lease" covering a fleet of cars or trucks, a conveyor system, an executive jet, a secretary's desk, typewriter and chair.

On short notice, through Mobilease, it can provide "instant space" in the form of a portable building, suitable for classrooms, branch banks or office space, as it did recently, supplying IBM with 100,000 square feet of offices in Boca Raton, Fla., in just 62 days.

PepsiCo Service Industries' overseas leasing operations also grew in 1968, and by year end were in Canada, Puerto Rico, South Africa and Mexico, with affiliates in Japan and the Netherlands.

Building PepsiCo: Prize Winning Advertising

In 1968, American consumers saw convincing advertisements for the Company's products and more of them. A Pepsi-Cola TV commercial was selected by Advertising Age among the year's 100 best.

Advertising for Pepsi-Cola and Diet Pepsi-Cola refined established themes, and was seen more frequently than ever before. Fritos corn chips and Lay's potato chips both had new advertising spokesmen.

Pepsi-Cola's successful theme, "Taste That Beats the Others Cold," was seen in 1968 in a new series of TV commercials using a variety of arresting visual techniques.

The girl-watched girls of Diet Pepsi-Cola sauntered through a new flight of TV commercials—along beaches, promenading on an Acapulco cruise ship, and appropriately enough in an election year, past an interested viewer in a certain white house in Washington, D.C.

In consumer testing, one of the Diet Pepsi commercials recorded the highest consumer awareness ever scored under the method used.

Comedian Buddy Hackett became the new spokesman for Lay's potato chips, succeeding the late Bert Lahr. With Hackett, the popular Lay's slogan received a new twist: "You Can Eat a Million of 'Em, But No Buddy Can Eat Just One."

Fritos corn chips had a new spokesman and a new message. The Frito Bandito is a mischievous character who tricks people out of their Fritos corn chips. The housewife is cautioned "Buy two bags of Fritos corn chips and hide one for yourself. There may be a Frito Bandito in your house."

Other products benefiting from national or spot TV ads were Mountain Dew, Teem, Tropic Surf, Ruffles potato chips, Chee•tos cheese puffs and Doritos tortilla chips.

Overseas, Pepsi-Cola was advertised in 46 languages in 114 countries with the new theme, "The Taste That Comes on Big." The ads stress the larger sizes of Pepsi-Cola now becoming popular in international markets.

Most PepsiCo Service Industries advertising is industry-oriented, but North American Van Lines effectively reaches its specific customer audience with magazine ads. Aimed at reassuring housewives worried about moving day, the ads deliver the message, the "*Gentle*men of the moving industry."

Building PepsiCo: Corporate Responsibilities

To insure a continuing climate in which it can prosper, the modern corporation can no longer ignore the social problems confronting America and the world. The corporation must take an active role in civic, cultural and community programs. While results in this area are less tangible and harder to measure than sales or profits, they are no less important.

PepsiCo has recognized and accepted its responsibilities in these vital areas. In 1968, it hired and trained more than 250 hard-core jobless, fulfilling a pledge to the National Alliance of Businessmen.

Through its Community Affairs Department, the Company has been an active supporter of such diverse projects as the Harlem Street Academy program, free outdoor concerts in New York City's parks by the Metropolitan Opera, and the National Education Television Network.

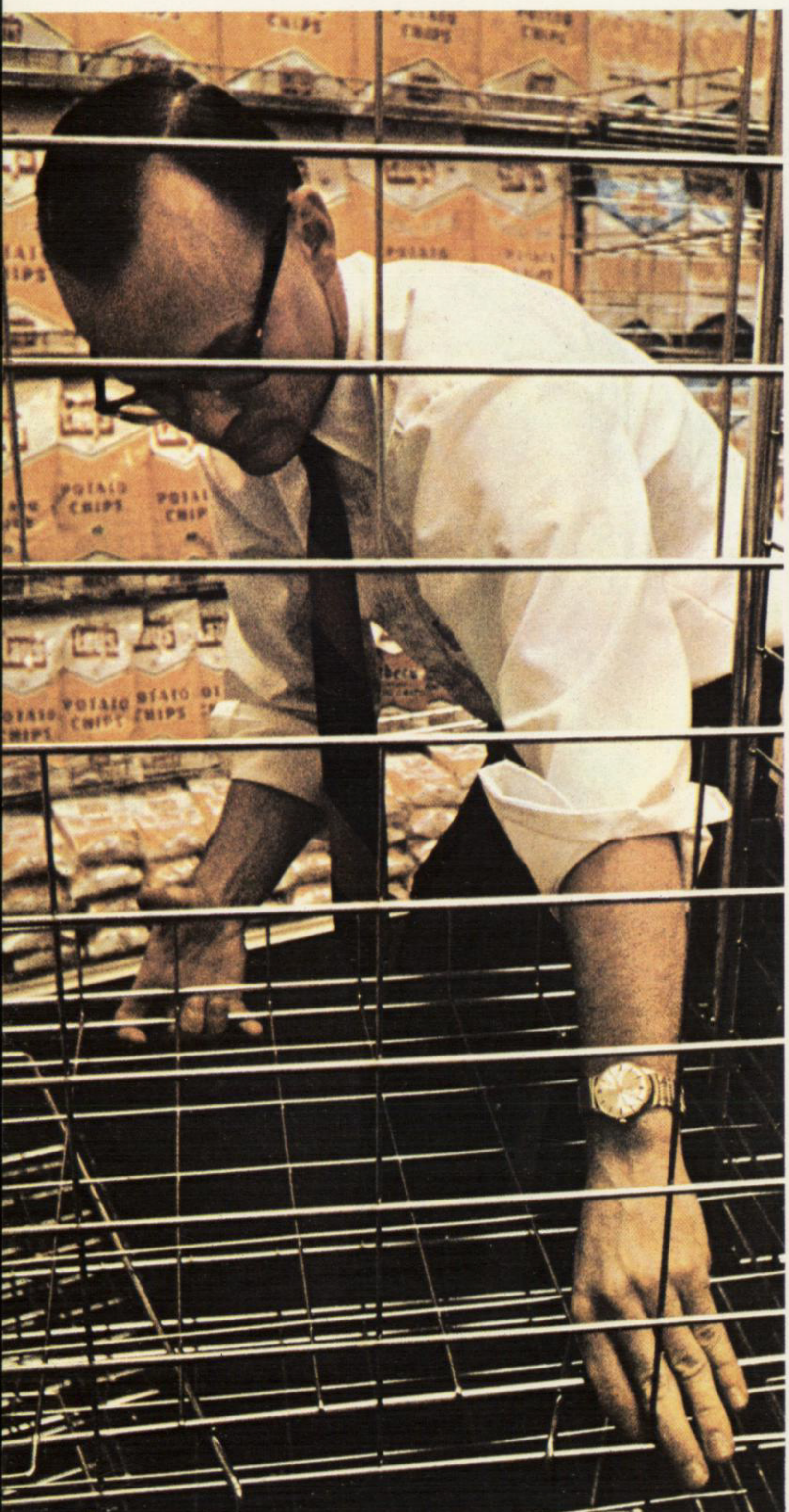
It has helped establish a training program for the hard-core unemployed in the Watts section of Los Angeles, and expects to expand this program to other cities. It has been a major supporter of the Keep America Beautiful program. Outside the United States, PepsiCo is a sponsor of the International Jaycee's Community Development Program in 82 countries. In South America, PepsiCo is an active participant in the ACCION self-help program.

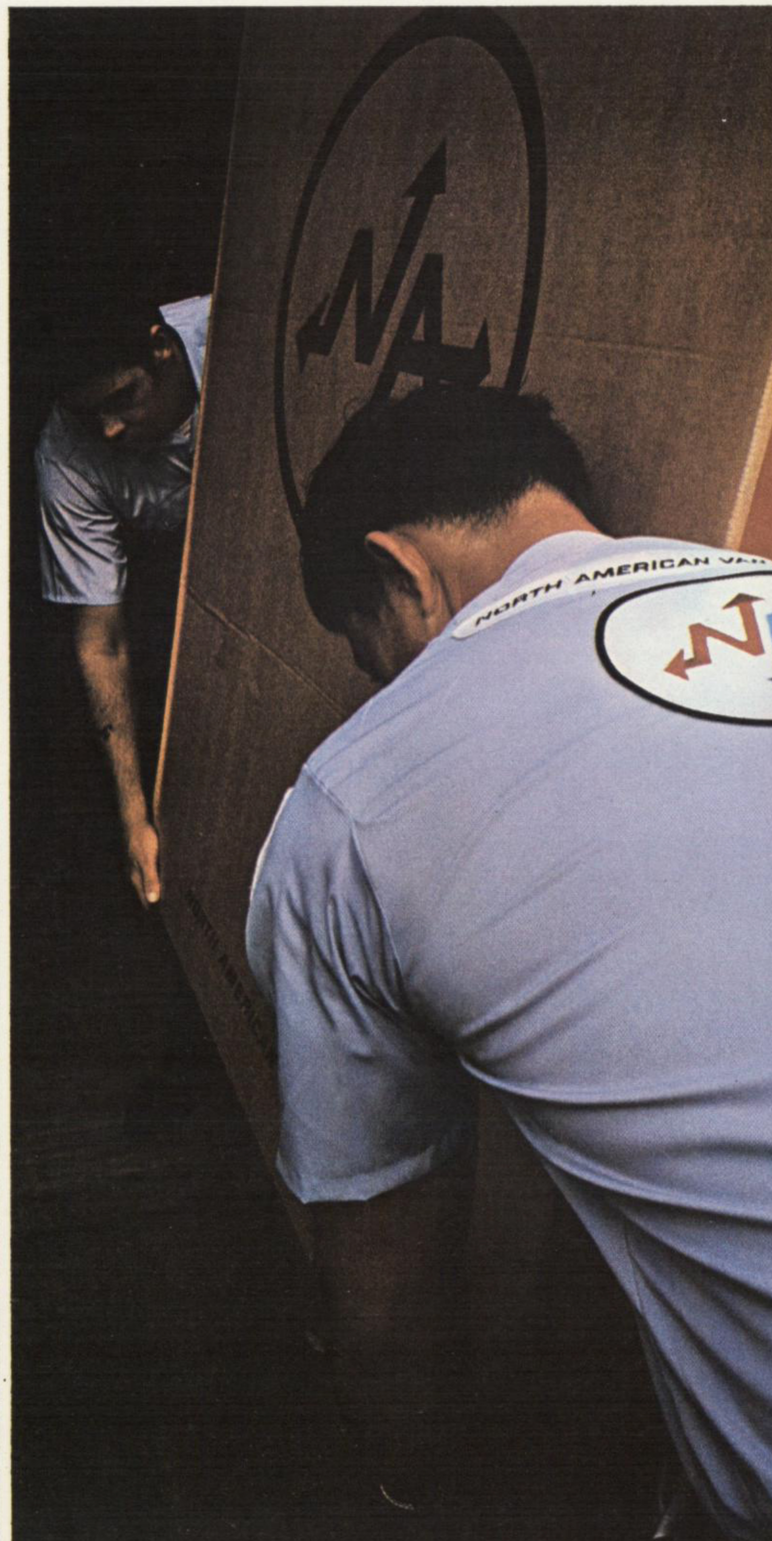
In all divisions, at all levels, executives are encouraged to take part in local civic and governmental affairs; the number of executives participating in such programs doubled in 1968.

Early in 1969, President Nixon named Donald M. Kendall, PepsiCo president and chief executive officer, as chairman of the National Alliance of Businessmen. The Alliance's goal is to find jobs in the private sector of

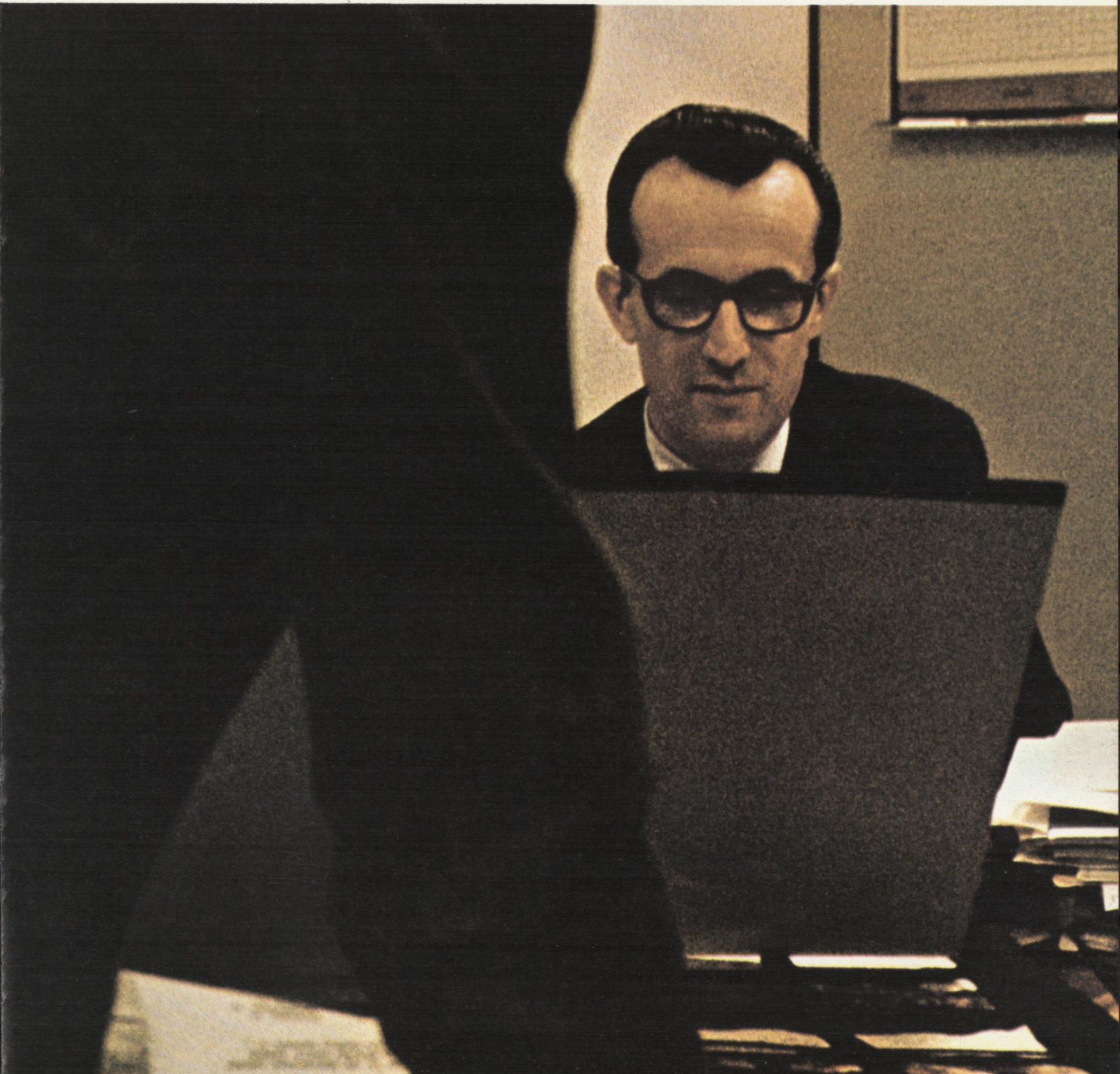
A grocery or supermarket can sell more snack foods, and boost profits, by changing the way snacks are displayed on its shelves. The man who shows how it's done is the Frito-Lay route salesman. "First we determine what snack foods are most popular in that store," says Frito-Lay's manager of sales development, Leo Lawler. "We take into account all the factors affecting snack sales and then recommend changes in the size and proportion of the displays." The end result is a more attractive, profitable snack section, increased sales of Frito-Lay products. Lawler, 29, came to Frito-Lay in 1961 after graduating from the University of Miami.

North American Van Lines—a PepsiCo Service Industries company—operates through a coast to coast network of agents. Kenneth Trussell and Jimmy Chandler, finishing the task of moving a family into its new Texas home, work for the North American agent in Houston, North East Moving and Storage. "We've been a North American Van agent for the past eight years," says agency president Dick Gibson Jr., "And in those years I've seen our volume of business double I don't know how many times. With more and more families moving every year, I expect it to double again a few times. This is what they mean when they talk about a growth business."



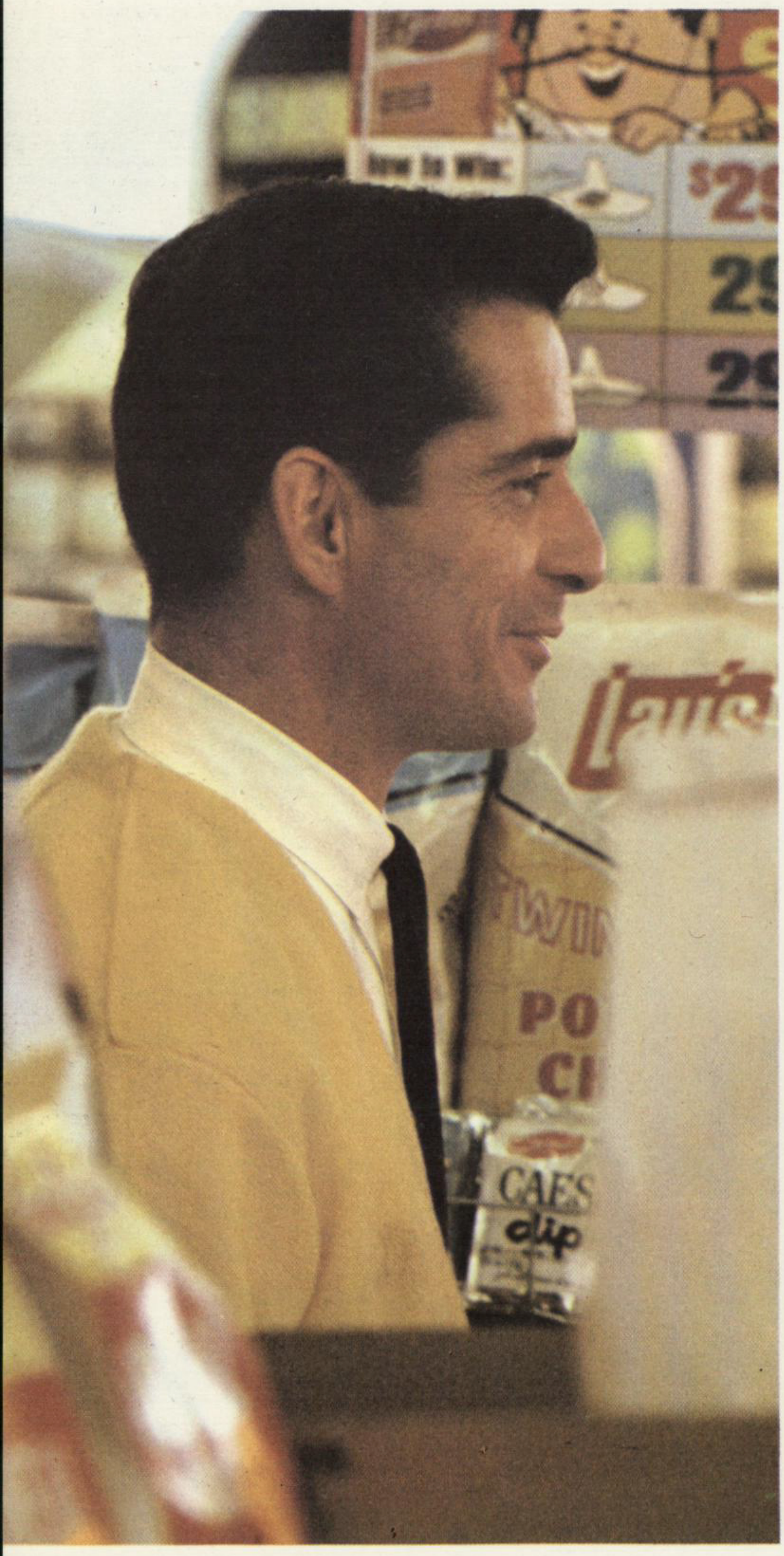


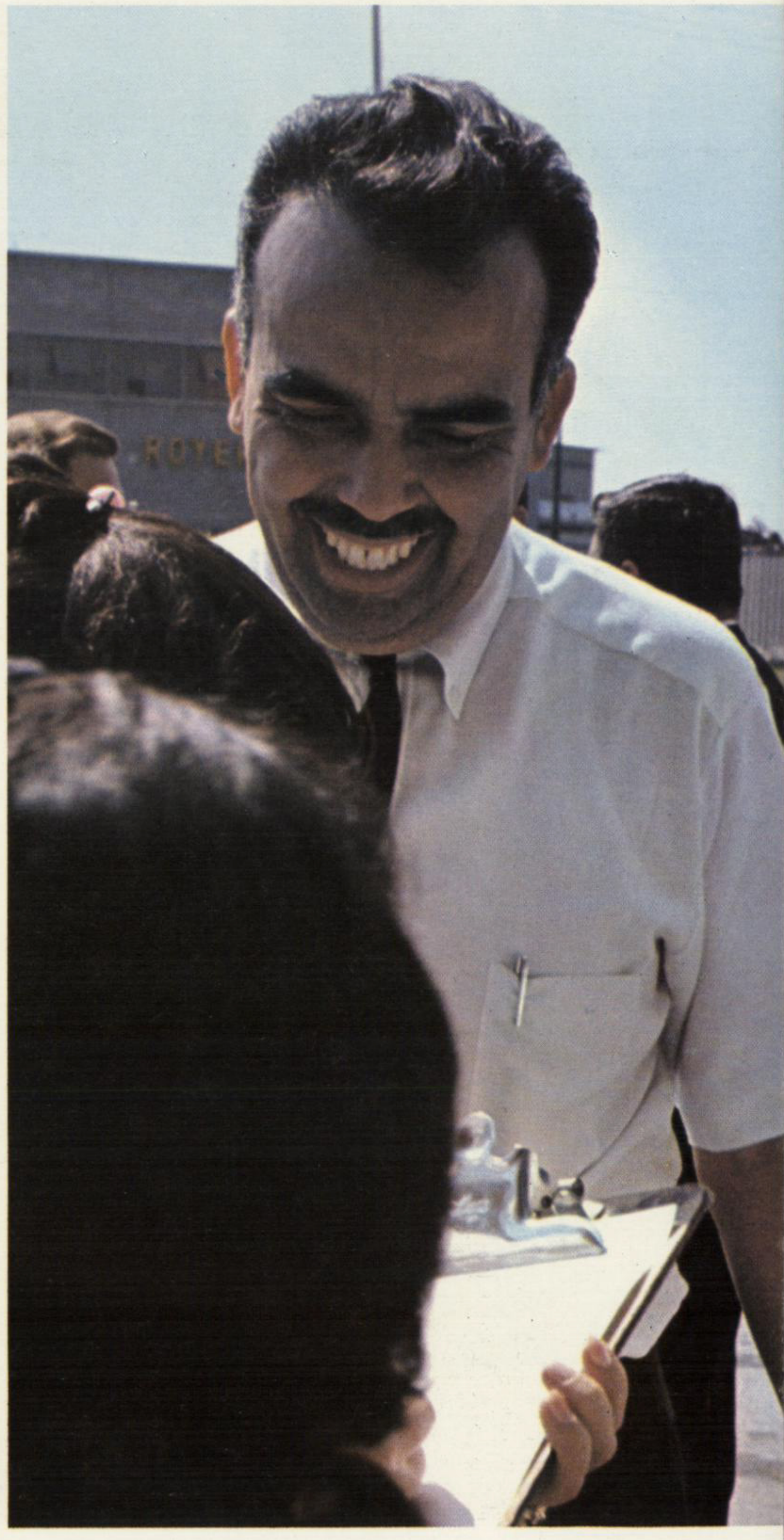
The storyboards for a new Mountain Dew commercial come under the careful review of Charlie Thomas. Having started as a route salesman for Pepsi-Cola in Philadelphia in 1955, he is now product manager for a group of the Company's most popular brands, supervising their advertising, promotion, packaging and quality control. "I came to New York for Pepsi in 1963," Charlie recalls, "and one of the things I have been close to ever since has been Diet Pepsi-Cola. I saw it launched and have watched it grow with the help of the 'Girl-watchers' theme."



The B&D Supermarket in Thousand Oaks, Calif., displays a full line of Frito-Lay products. But District Sales Manager Art Gonzalez, 36, is on hand just the same. "We make sure these racks are always filled, and filled with fresh product," he emphasizes. Then he stops to chat with store manager Bruce Connolly about a special display for a Fritos corn chip promotion. "I started out as a salesman for the local Pepsi-Cola bottler," Gonzalez recalls, "and then joined Frito-Lay as a route salesman nine years ago." In 1965, he was promoted to district sales manager.

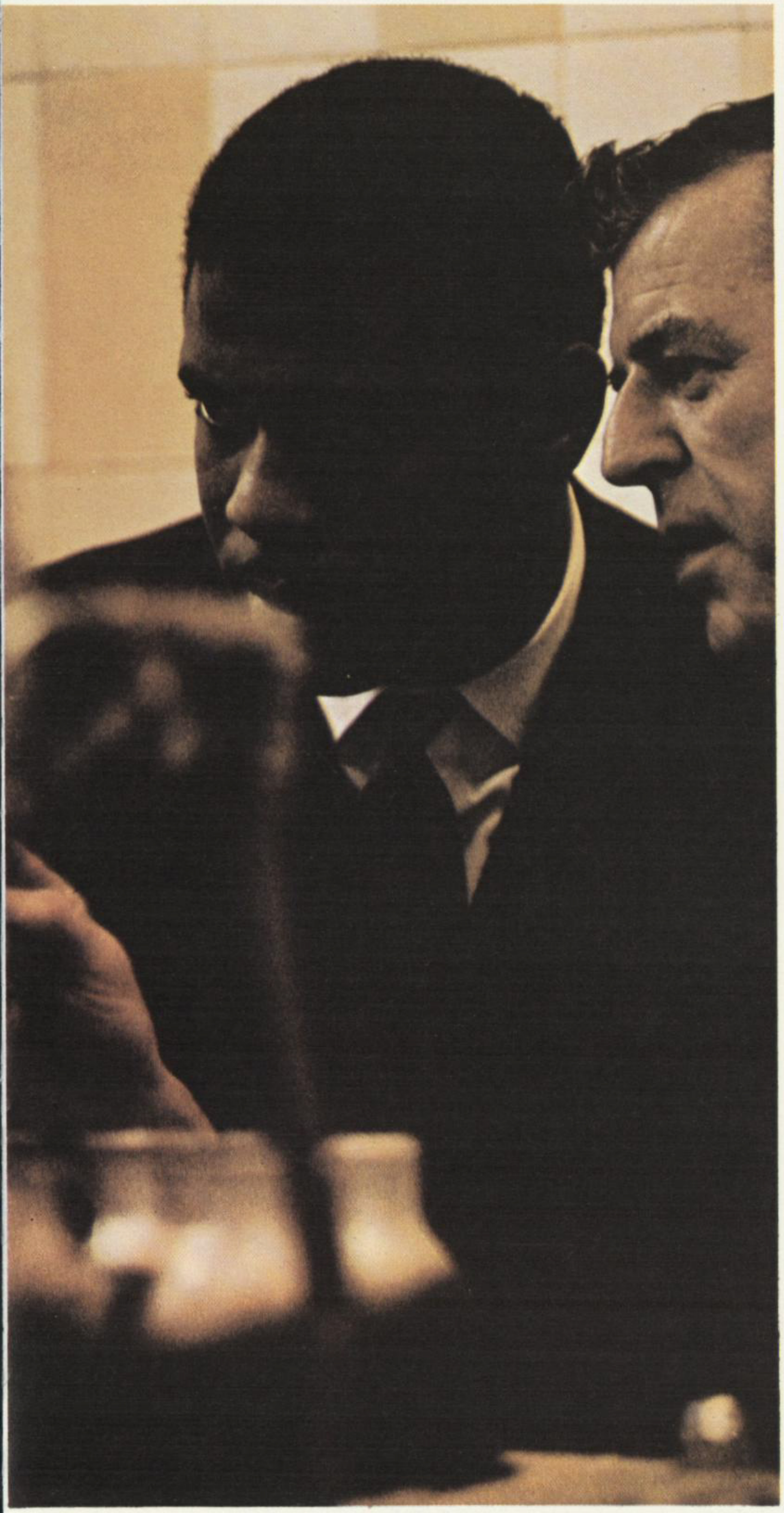
The Productos PepsiCo plant in Mexico City turns out eight different snack food products in 32 sizes—in all, more than 30 million packages a year—under the Sabritas label. Andres Barroso, 43, has been manager of the new and modern Productos plant since it opened in 1968; before that, he worked for Pepsi-Cola in Mexico. Like all but one of the 120 persons employed at the Sabritas plant, Barroso is a native of Mexico, in keeping with the PepsiCo International philosophy of employing local people in every country.

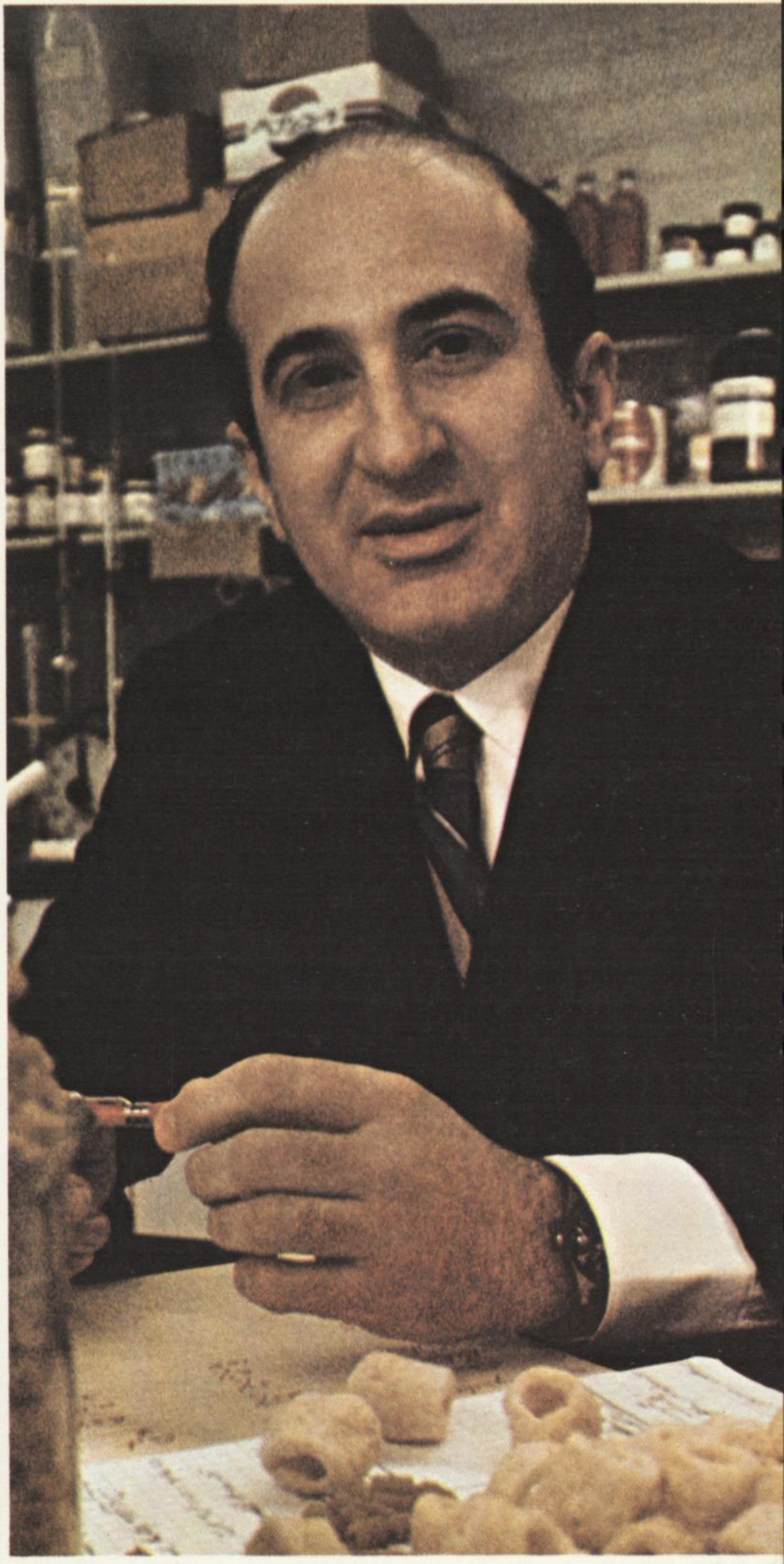




29-year-old District Manager Jim Jackson coordinates activities between Pepsi-Cola Company and its Bottlers throughout most of Michigan. "He represents us on just about everything affecting Pepsi-Cola Company products and sales," says Wally Henry, Central Division Vice President. "This includes marketing programs, sales training and marketing research." Jackson was graduated from Iowa State Teachers College. Later he taught high school science and coached the football and basketball team. At age 25, he was elected a representative to the Iowa Legislature. He joined Pepsi-Cola Company in 1965 as a special markets representative in the Cincinnati Region and was promoted to district manager in 1967.

As a member of PepsiCo's corporate research staff at New Brunswick, N. J., Dr. Rouben Kachikian works on a variety of long range projects, including "different packaging materials and innovative new ways to eliminate the difficulties in shipping snack foods over long distances." Dr. Kachikian, 42, earned his degrees at Syracuse University, the Universities of Tennessee and Massachusetts and had extensive industry research experience before joining the PepsiCo research staff last year.





the nation's economy for the hard-core unemployed. It is a voluntary, non-profit organization manned by business executives, labor union officials and representatives of federal, state and local governments.

Building PepsiCo: Research for the Future

PepsiCo's corporate research staff is moving from its temporary quarters at Rutgers University in New Brunswick, N. J. to new facilities at Valhalla, N.Y.

The corporate group concerns itself with long range projects, such as innovative new packaging materials and revolutionary ways to process or transport foods and soft drinks.

Research in the Pepsi-Cola and Frito-Lay divisions continues to concentrate on the development of new products consistent with existing product lines.

A research development by Frito-Lay during the year resulted in the test marketing of Fandangos, advertised as "The New Corn Snack With Wild West Flavor." Fandangos come in a unique fan shape and in two flavors, Buckboard Pizza and Galloping Green Onion. Test market results to date have been good.

Pepsi-Cola's new products development group, which has developed such items as Diet Pepsi-Cola and Tropic Surf, also has new soft drinks ready for test marketing in 1969.

Building PepsiCo: Management Development

PepsiCo and its divisions have been aware of the need to develop management skills and promote from within. With this in mind, it has been conducting an active recruiting program to find and hire bright young business school graduates. Several are in on-the-job training programs in each division, with an early chance to prove themselves.

Nowhere is the program of developing management skills better illustrated than at the Pepsi-Cola Management Institute, which opened during 1968.

PCMI is a revolutionary learning concept in the soft drink industry. Located in Phoenix, Ariz., it combines a permanent staff of executives with long "firing line" experience in the soft drink industry with a staff of visiting lecturers from the nation's leading universities.

Together, these staffs teach skills in the areas of management, marketing, finance and production.

PCMI is equipped with the most modern classroom, audio/visual and other teaching aids available today. It operates most of the year with courses lasting two weeks. Sixty hours of classroom work are coupled with group "problem solving" sessions.

PCMI expects to graduate 800 students each year. These executives of Pepsi-Cola division and its franchised bottlers return to their jobs trained in the latest management skills, better equipped to perform their jobs efficiently and profitably.

Building PepsiCo: In Conclusion

Less than 10 years ago, Pepsi-Cola moved into new headquarters in New York City. Headquarters big enough, it was envisioned, to provide space for years to come.

Pepsi-Cola was at that time basically a one-product company. It added new lines. In 1965, it merged with Frito-Lay to give birth to PepsiCo, Inc., a company with more than 100 products. And those products have been in fields growing faster than the economy as a whole.

As a result, PepsiCo has enjoyed steady growth—in people, in products and services, in diversity, and in sales and profits—not envisioned a decade ago.

As a result, those offices have overflowed. Today, new and larger headquarters, depicted on the cover, are being built for a growing future. As PepsiCo itself is building for a growing future.

This 12-passenger Hansa jet, designed for corporate executives or commuter airlines, will be leased to customers through PSL Air Lease Corp., a PepsiCo Service Industries company headquartered in Waltham, Mass. Rip Noble feels right at home in the cockpit. A pilot himself, he's been in various phases of the leasing industry since 1947 and joined PepsiCo Service Industries when Chandler Leasing Corp. was acquired in 1968. "We lease just about every type of aircraft you can imagine," he says, "from Piper Cubs to $7 million airline jets."

The Pepsi-Cola Management Institute in Phoenix, Ariz., stresses two sides of learning: the practical, as taught by executives with years of experience in the soft drink business, and the academic, as taught by professors from America's leading colleges and universities. Dr. Ralph Hook of the University of Hawaii, shown here teaching marketing techniques, is one of 33 educators from universities around the U.S. who, as visiting lecturers, supplement PCMI's permanent staff of 17. The Pepsi-Cola Management Institute, a concept unique in the soft drink industry, opened its doors for the first time in October of 1968. By the end of the 1968-69 academic year, some 568 executives will have been graduated from its intensive two week course.

Report of Certified Public Accountants

The Board of Directors and Shareholders,
PepsiCo, Inc.

We have examined the accompanying consolidated balance sheet of PepsiCo, Inc. and subsidiaries at December 28, 1968 and the related statements of consolidated income and retained earnings and consolidated source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of PepsiCo, Inc. and subsidiaries at December 28, 1968 and the consolidated results of their operations and the consolidated source and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Young & Company

277 Park Avenue
New York, N. Y.
March 7, 1969

Consolidated Statement of Income and Retained Earnings

Years ended December 28, 1968 and December 30, 1967

PepsiCo, Inc. and Subsidiaries

	1968	1967
Revenues		
Net sales	$848,265,196	$758,337,191
Interest and other income	6,277,046	6,340,331
	854,542,242	764,677,522
Costs and Expenses		
Cost of sales	452,673,846	400,014,318
Advertising, selling and administrative	310,388,146	282,461,622
Interest expense	5,364,509	5,742,963
Other expenses	3,567,001	7,005,995
	771,993,502	695,224,898
	82,548,740	69,452,624
Provision for federal and foreign income taxes (including deferred: 1968—$2,100,000; 1967—$1,700,000)	39,200,000	29,200,000
	43,348,740	40,252,624
Equity in net income of leasing subsidiaries	3,104,838	2,278,215
Net Income	46,453,578	42,530,839
Retained earnings at beginning of year restated for poolings of interests	186,056,528	162,697,680
Cash dividends		
Capital stock (per share: 1968—90¢; 1967—87½¢)	(19,435,892)	(18,320,906)
Pooled companies, prior to acquisition	(348,847)	(851,085)
Retained earnings at end of year	$212,725,367	$186,056,528
Net Income Per Share (based on average shares outstanding)	$2.10	$1.93

See accompanying notes.

Consolidated Balance Sheet
December 28, 1968 and December 30, 1967

ASSETS	1968	1967
Current Assets		
Cash	**$ 41,005,600**	$ 35,466,805
Short-term securities (approximates market)	**45,488,714**	29,917,486
Notes and accounts receivable, less allowance	**71,498,320**	62,961,194
Inventories—at cost (principally average method) not in excess of market	**56,402,341**	56,027,063
Prepaid expenses	**11,411,009**	10,847,286
	225,805,984	195,219,834
Investments and Long-Term Receivables		
Leasing subsidiaries—at equity	**22,364,196**	18,775,771
Receivables (non-current) and other investments (at cost less reserves)	**8,539,847**	10,761,426
	30,904,043	29,537,197
Property, Plant and Equipment, at Cost		
Land	**13,540,303**	12,404,651
Buildings	**55,059,357**	49,692,576
Machinery and equipment	**220,378,978**	200,109,945
Bottles and cases	**33,646,222**	24,392,589
	322,624,860	286,599,761
Less accumulated depreciation	**124,368,302**	110,914,448
	198,256,558	175,685,313
Other Assets	**16,949,411**	17,298,897
	$471,915,996	$417,741,241

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	1968	1967
Current Liabilities		
Notes payable (including current installments on long-term debt)	$ 21,418,223	$ 17,896,775
Accounts payable and accrued liabilities	77,616,547	65,295,172
Federal and foreign income taxes	19,928,366	10,569,496
Customers' deposits on bottles and cases	14,716,665	11,264,385
	133,679,801	105,025,828
Long-Term Debt	68,272,664	73,504,941
Deferred Income Taxes	5,800,000	3,700,000
Shareholders' Equity		
Capital stock, par value 16⅔¢ per share; authorized 30,000,000 shares; issued and outstanding at December 28, 1968, 22,195,573 shares	3,699,262	3,683,312
Capital in excess of par value	47,738,902	45,770,632
Retained earnings	212,725,367	186,056,528
	264,163,531	235,510,472
	$471,915,996	$417,741,241

Consolidated Statement of Source and Application of Funds

Year ended December 28, 1968

Source of Funds	
Operations	
Net income	$46,454,000
Depreciation (principally straight-line) and amortization	22,631,000
Deferred income taxes	2,100,000
Capital stock	2,055,000
Property disposals	5,709,000
	$78,949,000

Application of Funds	
Dividends	$19,436,000
Plant and equipment	40,414,000
Containers—net	9,253,000
Debt retirement	5,232,000
Other	2,682,000
Increase in working capital	1,932,000
	$78,949,000

Notes to Consolidated Financial Statements

Note 1— Principles of consolidation. During the year, the Company acquired North American Van Lines, Inc. and Chandler Leasing Corporation for a total of 1,119,316 shares of its capital stock in transactions which have been accounted for as poolings of interests. Operations of these businesses are included in the financial statements for 1968 and for 1967.

All domestic and foreign subsidiaries have been consolidated in the accompanying 1968 and 1967 financial statements (including North American Van Lines, Inc. and also, on a retroactive basis, common carrier operations which had previously been combined with leasing subsidiaries) with the exception of leasing subsidiaries which are carried at equity (see Note 7 for condensed financial information).

The Company's policy is to reflect in consolidated net income the current earnings of its foreign subsidiaries. Adequate provision has been made in the financial statements to give effect to the translation of foreign currencies at realistic rates. The total assets, total liabilities and net current liabilities of consolidated subsidiaries and branches outside of the United States and Puerto Rico stated in terms of United States dollars were $121,200,000, $54,400,000 and $1,400,000 respectively, at December 28, 1968.

Note 2 — Sugar facility. In August, 1968 the Company's entire beet/cane sugar facility at Montezuma, New York was leased to New York Sugar Industries, Inc. for fourteen years at an aggregate rental of $15,150,000. The lessee may purchase the facility in the final year of the lease at a price equal to its then fair market value, with certain adjustments. In addition, New York Sugar Industries issued to the Company a warrant, exercisable until September 1, 1978, to purchase 300,000 shares of New York Sugar Industries common stock at $7 per share.

In September, the Company reached agreement with the contractor for the Montezuma sugar facility, settling the Company's claims against the builder for $2,500,000, which amount has been applied in reduction of cost of the facility, bringing its net book value to $16,100,000 at year-end.

Note 3—Long-term debt. At December 28, 1968, long-term debt (less current installments) consisted of:

4½% convertible debentures, due in 1981	$30,000,000
4⅞% mortgage note, due in semi-annual installments of $756,418 including interest to 1996	22,161,965
5¼% notes payable, due $1,250,000 annually to 1974	7,500,000
5½% note payable, due $380,000 annually to 1981	4,260,000
7% notes payable, due 1981-1990	1,907,115
Other	2,443,584
	$68,272,664

Note 4—Capital stock and capital in excess of par value. Shares reserved at December 28, 1968 were as follows:

Stock options	480,366
4½% convertible debentures (at $46.50 per share)	645,162
6% convertible subordinated debentures of Lease Plan	7,655
Stock purchase warrant (at $12.50 per share)	120,000
	1,253,183

In connection with the acquisition of Chandler, the obligations under the Chandler option plan (34,168 outstanding options at date of acquisition) and the above stock purchase warrant were assumed by the Company. At December 28, 1968, options were outstanding on 432,000 shares (of which 275,465 were then exercisable) having an aggregate option price of $13,222,418; the balance of 48,366 shares being available for future grants under the Company's 1964 Plan. Changes in options during 1968 were as follows: granted as to 56,000 shares having an aggregate option price of $2,106,938; exercised as to 88,813 shares having an aggregate option price of $2,043,318 and cancelled as to 4,959 shares.

The increase of $1,968,270 in capital in excess of par value is accounted for as follows:

Excess of proceeds over par value of shares issued under stock option plans (including pooled company prior to acquisition)	$2,040,021
Other (less expenses of poolings $223,061)	(71,751)
	$1,968,270

Note 5—Long-term leases and commitments. The Company and its subsidiaries are lessees under long-term leases for office space, plant and warehouse facilities expiring at various dates to 1992 having minimum aggregate annual rentals of $4,100,000 (exclusive of insurance, taxes and repairs).

At December 28, 1968 the Company and its subsidiaries were contingently liable as guarantors of loans, principally to franchised bottlers, aggregating $7,300,000.

The Company is also contingently liable for the repurchase of vending equipment acquired by franchisees, unpaid balances by them to banks in this regard being $4,200,000 at December 28, 1968.

Note 6—Pensions. The Company and its subsidiaries have several noncontributory pension plans covering substantially all domestic employees

and certain of its employees outside of the U.S. The Company's policy is to accrue and fund normal cost plus interest on unfunded prior service cost. Pension expense was approximately $5,600,000 in 1968.

Note 7—Leasing subsidiaries. The Company's investments in its leasing subsidiaries are carried at equity in their combined net assets.

The condensed comparative combined financial statements of the leasing subsidiaries shown below at December 31, 1968 and 1967 and for the years then ended, include the activities of Lease Plan International Corp., Chandler Leasing Corporation and Pepsi-Cola Equipment Corp. Common carrier operations previously consolidated with the leasing subsidiaries have been transferred to PepsiCo, Inc. and have been consolidated with PepsiCo, Inc. on a retroactive basis.

CONDENSED FINANCIAL POSITION	1968	1967
	(in thousands)	
Cash	$ 8,106	$ 5,579
Leases and contracts receivable	215,448	189,759
Property and equipment, less accumulated depreciation (1968—$6,952,000; 1967—$5,241,000)	24,749	17,225
Other assets, including intangibles	6,521	7,092
Assets	254,824	219,655
Secured notes payable	180,171	159,331
Other notes payable	31,946	25,434
Accounts payable and accruals	7,033	5,450
Deferred federal income tax	13,310	10,664
Liabilities	232,460	200,879
PepsiCo equity in leasing subsidiaries	$ 22,364	$ 18,776
Represented by:		
Common stock and capital surplus	$ 11,920	$ 11,656
Retained earnings	13,327	10,304
Net worth of leasing subsidiaries	25,247	21,960
Less receivable from PepsiCo, Inc.	(2,883)	(3,184)
	$ 22,364	$ 18,776

CONDENSED STATEMENT OF INCOME AND RETAINED EARNINGS	1968	1967
	(in thousands)	
Leasing and other income	$ 23,745	$ 19,581
Costs and expenses (including depreciation—1968—$3,694,000; 1967—$2,831,000)	18,533	15,406
	5,212	4,175
Provision for deferred federal income tax (including current—$61,000 in 1968 and $333,000 in 1967; less investment credit—$976,000 in 1968 and $260,000 in 1967)	2,107	1,897
Net income	3,105	2,278
Retained earnings at beginning of year	10,304	8,342
Dividends of pooled company prior to acquisition	(82)	(316)
Retained earnings at end of year	$ 13,327	$ 10,304

Secured notes payable are generally repayable as the related leases and contracts receivable are collected.

With respect to Pepsi-Cola Equipment Corp., engaged in providing leasing services to franchised Pepsi-Cola bottlers, PepsiCo, Inc. has guaranteed its notes payable of $21,900,000 (included in other notes payable), principally 4½% notes due in 1972; these obligations are not collateralized by the pledge of leases and contracts receivable or rental equipment.

Note 8—Pending acquisition. The Boards of Directors of the Company and Hardee's Food Systems, Inc. have approved in principle a merger of the two companies subject to agreement on certain terms, approval of Hardee's shareholders and receipt of a favorable tax ruling.

PepsiCo, Inc. Directors

Herman W. Lay*†
Chairman of the Board, PepsiCo, Inc. and Chairman of the Finance Committee

Donald M. Kendall*†
President and Chief Executive Officer, PepsiCo, Inc. and Chairman of the Executive Committee

Charles Allen, Jr.*†
Senior Partner, Allen & Company, Investment Bankers

Angus S. Alston
Executive Vice President, American Telephone and Telegraph Company

Herbert L. Barnet*
Chairman of the Board, Pepsi-Cola Company

Harry E. Gould*
Chairman of the Board, Universal American Corporation, a division of Gulf + Western Industries, Inc.

William B. Oliver*
Chairman of the Board, Frito-Lay, Inc., and Vice President, Food Operations (U.S.), PepsiCo, Inc.

Herman A. Schaefer†
Executive Vice President, Finance and Administration, PepsiCo, Inc.

James B. Somerall
President, Pepsi-Cola Company and Vice President, Beverage Operations (U.S.), PepsiCo, Inc.

Robert H. Stewart III†
Chairman of the Board, First National Bank in Dallas

Fladger F. Tannery*
Chairman of the Board, PepsiCo International and Executive Vice President, PepsiCo, Inc.

Peter K. Warren
President, PepsiCo International and Vice President, International Operations, PepsiCo, Inc.

John D. Williamson
Investments

**Member of the Executive Committee*
†Member of the Finance Committee

PEPSICO INC.

PepsiCo, Inc. Executive Offices

500 Park Avenue, New York, N. Y. 10022

Officers

Herman W. Lay, *Chairman of the Board*
Donald M. Kendall, *President and Chief Executive Officer*
Herman A. Schaefer, *Executive Vice President, Finance and Administration*
Fladger F. Tannery, *Executive Vice President*
Robert J. Abernethy, *Vice President, Manufacturing and General Services*
John R. Allison, *Vice President, Service Industries*
Peter J. De Luca, *Vice President, General Counsel, Secretary*
Gerald J. Fischer, *Vice President, Controller*
Paul W. Kayser, *Vice President, Director of Industrial Relations*
Roy E. Morse, *Vice President, Research*
Paul W. Moseley, *Vice President, Advertising*
William B. Oliver, *Vice President, Food Operations (U.S.)*
Harvey C. Russell, *Vice President, Community Affairs*
James B. Somerall, *Vice President, Beverage Operations (U.S.)*
Peter K. Warren, *Vice President, International Operations*
George Williamson, *Vice President, Treasurer*
W. Lamar Lovvorn, *Assistant Secretary*
James W. Robertson, *Assistant Secretary*
Harold E. Rome, *Assistant Secretary*
Edson E. Beckwith, *Assistant Treasurer*
William T. Leitner, *Assistant Treasurer*
Harvey Luppescu, *Assistant Controller*

Pepsi-Cola Division Executive Offices

500 Park Avenue, New York, N. Y. 10022
James B. Somerall, *President*

Frito-Lay Division Executive Offices

Frito-Lay Tower, Exchange Park, Dallas, Texas 75235
Harold R. Lilley, *President*

PepsiCo International Division Executive Offices

500 Park Avenue, New York, N. Y. 10022
Peter K. Warren, *President*

PepsiCo Service Industries Executive Offices

130 Steamboat Road, Great Neck, N. Y. 11022
John R. Allison, *President*

Annual Meeting

The Annual Meeting of our Stockholders will be held at the Corporation's home office at 100 West Tenth Street in Wilmington, Delaware, at 2:00 P.M. (E.D.T.) Wednesday, May 7, 1969. Proxies for the meeting will be solicited by the Management in a separate Proxy Statement. This Report is not a part of such proxy solicitation and is not to be used as such.

Transfer Agents

Marine Midland Grace Trust Company of New York, New York, N. Y.
First Jersey National Bank, Jersey City, N.J.
Harris Trust and Savings Bank, Chicago, Ill.
First National Bank in Dallas, Dallas, Texas
The Fulton National Bank of Atlanta, Atlanta, Ga.

Registrars

The Chase Manhattan Bank N.A., New York, N.Y.
The First National Bank of Chicago, Chicago, Ill.
Republic National Bank of Dallas, Dallas, Texas
The First National Bank of Atlanta, Atlanta, Ga.

Auditors

Arthur Young & Company, New York, N. Y.